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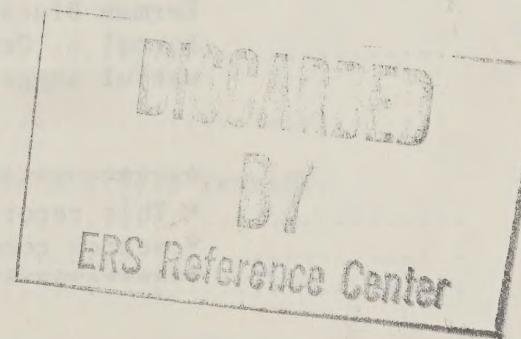
Transfer Payments in Nonmetropolitan Areas

Robert A. Hoppe
William E. Saupe

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ABSTRACT

Transfer payments have become an important source of income, particularly in nonmetropolitan areas. By 1977, transfer programs represented 16.1 percent of nonmetro personal income, compared with only 13.1 percent of metro personal income. This report describes the U.S. transfer payment system and identifies programs that are especially important to nonmetro areas. It documents the growth of transfer payments in both metro and nonmetro areas. The report also pinpoints counties that could be affected by changes in the transfer system because they receive large transfer payments.

Keywords: Medicare, metropolitan areas, nonmetropolitan areas, personal income, public assistance, retirement programs, social security, transfer payments, welfare.

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SUMMARY

Transfer payments have become an important source of personal income. From only 7 percent in 1950, transfer payments grew to 13.7 percent of U.S. personal income in 1977. These payments include social security, medicare, military retirement, unemployment insurance, and public assistance.

Although the average per capita transfer payment was higher in metro than nonmetro areas, nonmetro areas received a larger share of their personal income from transfer programs in 1977. About 16.1 percent of nonmetro personal income came from transfer payments, compared to only 13.1 percent of metro income. Even a small transfer payment can be a large portion of total income in low-income areas.

The general retirement programs, social security and medicare, were particularly important in nonmetro areas, paying both large per capita benefits and a large portion of personal income. Over 90 percent of the counties in the quintile with the highest per capita general retirement payments were nonmetropolitan. Most of these high payment counties were concentrated in a triangle with its corners in North Dakota, Michigan, and central Texas.

In contrast, public assistance paid a relatively small share of both metro and nonmetro personal income. However, nearly 90 percent of the counties in the quintile with the highest per capita payments from public assistance were also nonmetro. Most of these counties were in the South with concentrations in the coastal plains of South Carolina, Georgia, and Alabama; in the Mississippi Delta; and in Appalachian Kentucky.

Ways to reduce the growth of transfer payments have been discussed a great deal during the last 10 years. Recent proposals include the Reagan Administration's New Federalism and modifications in program rules, such as changing indexing formulas and altering eligibility criteria. The outcome of these debates will greatly affect nonmetro areas that depend heavily on transfer programs.

TRANSFER PAYMENTS IN NONMETROPOLITAN AREAS

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INTRODUCTION

During the past 30 years, transfer payments have become an important source of personal income. The share of U.S. personal income from transfer payments increased from about 7 percent in 1950 to 9 percent in 1960 and to almost 14 percent in 1977 (15, pp. 241, 242; 17, p. 443).^{1/} Transfer payments were an even larger share of personal income, 16.1 percent, in nonmetropolitan areas.^{3/} Both government and businesses provide transfer payments. Examples of well-known public transfer programs are social security, medicare, military retirement, unemployment insurance, and welfare or public assistance. Examples of business transfer payments are corporate gifts to nonprofit organizations and uncollectible consumer debts (20, p. xxi).

Ways to reduce the growth of public transfer payments have been discussed a great deal over the last 10 years. Recent proposals include the Reagan Administration's New Federalism and modifications in program rules, such as changing indexing formulas and altering eligibility criteria. The outcome of these debates will greatly affect nonmetro areas that depend heavily on transfer programs for income.

1/ Underlined numbers in parentheses refer to references listed at the end of the report.

2/ Personal income is income that individuals receive from all sources. Personal income is calculated after personal deductions for social insurance programs, but before deductions for personal taxes. It is made up of wages, salaries, other labor income, proprietors' income, transfer payments, and property income. A transfer payment is income people receive for which they rendered no services in the current period (20, p. vi).

3/ A county is metropolitan if it is part of a Standard Metropolitan Statistical Area (SMSA). The remaining counties are nonmetropolitan. An SMSA is made up of a county or group of counties containing at least:

1. One central city with a population of 50,000 or more, or
2. A central city with a population of at least 25,000, if the city's population plus the population of contiguous thickly populated places equals 50,000 or more.

Additional contiguous counties are considered part of an SMSA if they are economically and socially integrated with the central city (27, pp. 1, 2).

This report emphasizes transfer payments' effect on geographic areas by identifying places that receive large per capita transfer payments or a large percentage of their income from transfer payments. No attempt was made to estimate the effects of transfer payments on individuals.^{4/} Knowing where specific transfer payments provide large amounts of income will help both individuals and public officials understand which areas would be affected by changes in the transfer system. As an example, this report pinpoints areas that could be affected by the New Federalism proposed in President Reagan's 1982 State of the Union Address. Although the data reflect the distribution of payments in the late 1970's, little structural change has occurred in the programs since then that would alter basic conclusions.

The report analyzes regional variations in transfer payments and emphasizes differences between metropolitan and nonmetropolitan areas. It examines per capita transfer payments in 1969 and 1977, the percent of personal income from transfers in 1969 and 1977, and the growth of transfers between 1969 and 1977. Before any geographic data are presented, the sources of data and types of U.S. transfers will be described briefly.

SOURCES OF DATA

The county data in this report was provided by the Bureau of Economic Analysis (BEA) of the Department of Commerce (21, 22). BEA based most of its transfer payment estimates on county-level administrative records of individual programs (20, pp. xviii-xxii).^{5/} County estimates of the remaining benefits were calculated by allocating State or national data to the county level.^{6/} Seventy-five percent of the Nation's total transfer payments reported in the BEA data were based on administrative or fiscal records. The percentage of transfer payments allocated by administrative records in each county ranged from 50 to 80 percent (19, p. 25). The exact percentage depended on the size of different programs in individual counties.

A BRIEF DESCRIPTION OF U.S. TRANSFER PROGRAMS 7/ 8/

Most U.S. transfer payments come from retirement programs; retirement and related programs paid about two-thirds of all transfers in 1977 (table 1). These programs usually pay bene-

4/ For example, no estimates were made of average social security payments per recipient.

5/ The term "county" is used loosely to include parishes in Louisiana, Census Divisions in Alaska, independent cities, the District of Columbia, and the boroughs of New York City. County data were aggregated to form regional totals.

6/ Allocation procedures varied from program to program. See Appendix A for more information about BEA's data sources and allocation procedures.

7/ For a more detailed description of U.S. transfer programs, see Appendix B.

8/ Most of the information about individual programs in this Section came from (11).

Table 1--Percent of total transfer payments provided by each program by residence, 1977

| Transfer program <u>1/</u> | Percent of total transfers | | |
|---|----------------------------|-----------------|------------|
| | Metropolitan | Nonmetropolitan | U.S. Total |
| : | | | |
| Retirement and related programs | : 65.5 | : 67.7 | : 66.0 |
| General programs | : 49.1 | : 54.1 | : 50.4 |
| Social security | : 38.3 | : 44.4 | : 39.9 |
| Medicare | : 10.8 | : 9.8 | : 10.5 |
| Specific employee programs | : 16.4 | : 13.5 | : 15.6 |
| Railroad | : 1.7 | : 2.2 | : 1.8 |
| Federal | : 5.1 | : 3.9 | : 4.8 |
| Military | : 4.3 | : 3.5 | : 4.1 |
| State and local government | : 5.4 | : 3.8 | : 5.0 |
| Income maintenance | : 18.5 | : 15.3 | : 17.7 |
| Unemployment insurance | : 6.5 | : 5.5 | : 6.3 |
| Public assistance | : 12.0 | : 9.8 | : 11.4 |
| Supplemental security income | : 2.9 | : 3.6 | : 3.1 |
| Aid to families with dependent children | : 5.8 | : 3.1 | : 5.1 |
| General assistance | : .7 | : .2 | : .6 |
| Food stamps | : 2.0 | : 2.2 | : 2.1 |
| Other | : .6 | : .7 | : .6 |
| Miscellaneous | : 16.0 | : 17.0 | : 16.3 |
| : | | | |
| Total | : 100.0 | : 100.0 | : 100.0 |
| : | | | |

1/ See text for explanation of programs.

Source: (22).

fits to disabled workers and survivors of deceased workers, as well as retired workers. General retirement programs (social security and medicare) do not require previous employment in a specific type of job, but cover workers with a range of jobs. Other programs pay retirement, survivor, and disability benefits only to specific employee groups.

Income maintenance programs (unemployment insurance and public assistance) help support people during economic misfortunes. Most unemployment benefits are paid by State-administered unemployment insurance programs, although special programs exist for Federal workers, railroad employees, and veterans.

The programs discussed so far are largely social insurance programs, funded at least in part by payroll taxes or taxes on proprietors' earnings. Participants in these programs do not have to demonstrate need in order to enroll. Public assistance programs, in contrast, provide income to the needy.

Supplemental security income (SSI), aid to families with dependent children (AFDC), general assistance, and food stamps are the major public assistance programs. Federal SSI pays a uniform minimum cash income to needy aged, blind, or disabled people throughout the Nation. States, however, may supplement the Federal SSI payments. AFDC, which was designed primarily to aid female-headed families, helps children deprived of support because of the death, incapacity, or absence of a parent. State or local governments pay general assistance to people not qualified for other programs. The food stamp program was initiated to alleviate malnutrition and expand sales of agricultural products.

Approximately 16 percent of total transfer payments came from miscellaneous programs. Veterans' benefits paid about 39 percent of miscellaneous transfers. Another 28 percent came from business transfers to individuals, which include cash prizes, personal injury payments to people other than employees, unrecovered thefts from businesses, and unrecoverable consumer debts. Sixteen percent were government and business payments to nonprofit institutions, and the remaining miscellaneous transfers were paid by the black lung program, workers' compensation, educational training and assistance, and other programs.

**TRANSFER PAYMENTS
BY REGION AND
RESIDENCE 9/**

Five broad categories of programs were used to analyze regional and residential patterns. These five broad categories are: (1) total transfer payments, (2) general retirement, (3) specific employee retirement, (4) unemployment insurance, and (5) public assistance.

**Total Transfer
Payments**

Metropolitan counties, as a whole, had slightly higher per capita transfer payments than nonmetropolitan counties (table 2). Metro transfers averaged \$982 per capita in 1977 and \$334 in 1969, somewhat more than the average nonmetro payments of \$922 in 1977 and \$320 in 1969. One should not conclude, however, that transfers are less important in non-metro areas. Although some nonmetro payments were small, in both years transfers provided a larger share of personal income in nonmetro than metro areas in each region of the United States. In addition, some nonmetro areas had relatively large transfer payments. For example, the nonmetro Northeast had a 1977 per capita transfer payment of \$1,080, which was higher than the payment anywhere outside the Northeast. In both 1969 and 1977, per capita transfer payments were larger in nonmetro than metro areas in the North Central Region.

Lower incomes are a major factor explaining why transfer payments provided a larger part of nonmetro than metro personal income. Nonmetropolitan per capita income averaged \$5,742 in 1977 and \$2,842 in 1969, well below the corresponding metro averages of \$7,522 in 1977 and \$3,977 in 1969 (table 3). Even a small transfer payment can be a larger portion of total income in low-income areas.

General Retirement

General retirement programs paid both a large per capita benefit and a large percentage of personal income in the nonmetro Northeastern and North Central Regions (table 2). Except in the West in 1977, per capita general retirement payments were more in nonmetro than metro areas.

The distribution of the elderly explains part of the variation in general retirement benefits (table 4). The nonmetro areas

9/ Census Regions and their component States are:
Northeast: Maine, New Hampshire, Vermont, Massachusetts,
Rhode Island, Connecticut, New York, New Jersey, and
Pennsylvania.

North Central: Ohio, Indiana, Illinois, Michigan,
Wisconsin, Minnesota, North Dakota, South Dakota, Iowa,
Nebraska, Missouri, and Kansas.

South: Delaware, Maryland, District of Columbia, West
Virginia, Virginia, North Carolina, South Carolina, Georgia,
Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas,
Louisiana, Oklahoma, and Texas.

West: Montana, Idaho, Wyoming, Nevada, Utah, Colorado,
Arizona, New Mexico, Alaska, Hawaii, Washington, Oregon, and
California.

Table 2--Per capita transfer payments and transfer payments as a percentage of total personal income by program, region, and residence, 1969 and 1977

| Program, region, and residence 1/ | Per capita transfer payments | | | Transfer payments as a percent of personal income | |
|--------------------------------------|------------------------------|------|--------|--|------|
| | 1969 | 1977 | Change | 1969 | 1977 |
| | -----Dollars----- | | | Percent | |
| All programs | : | | | | |
| | : | | | | |
| Northeast | : | 378 | 1,113 | 194.4 | 9.3 |
| Metropolitan | : | 379 | 1,118 | 195.0 | 9.0 |
| Nonmetropolitan | : | 369 | 1,080 | 192.7 | 11.6 |
| | : | | | | |
| North Central | : | 303 | 892 | 194.4 | 8.1 |
| Metropolitan | : | 295 | 888 | 201.0 | 7.2 |
| Nonmetropolitan | : | 323 | 900 | 178.6 | 10.5 |
| | : | | | | |
| South | : | 294 | 893 | 203.7 | 9.4 |
| Metropolitan | : | 293 | 896 | 205.8 | 8.3 |
| Nonmetropolitan | : | 295 | 886 | 200.3 | 11.8 |
| | : | | | | |
| West | : | 373 | 1,018 | 172.9 | 9.5 |
| Metropolitan | : | 379 | 1,037 | 173.6 | 9.2 |
| Nonmetropolitan | : | 350 | 946 | 170.3 | 11.3 |
| | : | | | | |
| U.S. total | : | 330 | 965 | 192.4 | 9.0 |
| Metropolitan | : | 334 | 982 | 194.0 | 8.4 |
| Nonmetropolitan | : | 320 | 922 | 188.1 | 11.3 |
| | : | | | | |
| General retirement | : | | | | |
| | : | | | | |
| Northeast | : | 189 | 563 | 197.9 | 4.6 |
| Metropolitan | : | 189 | 561 | 196.8 | 4.5 |
| Nonmetropolitan | : | 194 | 569 | 193.3 | 6.1 |
| | : | | | | |
| North Central | : | 170 | 496 | 191.8 | 4.5 |
| Metropolitan | : | 160 | 475 | 196.9 | 3.9 |
| Nonmetropolitan | : | 191 | 540 | 182.7 | 6.2 |
| | : | | | | |
| South | : | 143 | 445 | 211.2 | 4.6 |
| Metropolitan | : | 138 | 431 | 212.3 | 3.9 |
| Nonmetropolitan | : | 152 | 467 | 207.2 | 6.1 |
| | : | | | | |
| West | : | 156 | 453 | 190.4 | 4.0 |
| Metropolitan | : | 155 | 455 | 193.5 | 3.8 |
| Nonmetropolitan | : | 160 | 448 | 180.0 | 5.2 |
| | : | | | | |
| U.S. total | : | 164 | 487 | 197.0 | 4.5 |
| Metropolitan | : | 162 | 482 | 197.5 | 4.1 |
| Nonmetropolitan | : | 170 | 499 | 193.5 | 6.0 |
| | : | | | | |

See footnotes at end of table.

Continued

Table 2--Per capita transfer payments and transfer payments as a percentage of total personal income by program, region, and residence, 1969 and 1977--Continued

| Program, region, and residence 1/ | Per capita transfer payments | | | Transfer payments as a percent of personal income | |
|--------------------------------------|------------------------------|------|--------|--|------|
| | 1969 | 1977 | Change | 1969 | 1977 |
| | -----Dollars----- | | | Percent----- | |
| Specific employee retirement | : | | | | |
| | : | | | | |
| Northeast | : | 50 | 144 | 188.0 | 1.2 |
| Metropolitan | : | 49 | 141 | 187.8 | 1.1 |
| Nonmetropolitan | : | 58 | 160 | 175.9 | 1.8 |
| | : | | | | |
| North Central | : | 38 | 106 | 178.9 | 1.0 |
| Metropolitan | : | 38 | 107 | 181.6 | .9 |
| Nonmetropolitan | : | 37 | 101 | 173.0 | 1.2 |
| | : | | | | |
| South | : | 53 | 169 | 218.9 | 1.7 |
| Metropolitan | : | 64 | 201 | 214.1 | 1.8 |
| Nonmetropolitan | : | 36 | 118 | 227.8 | 1.4 |
| | : | | | | |
| West | : | 67 | 193 | 188.1 | 1.7 |
| Metropolitan | : | 70 | 199 | 184.3 | 1.7 |
| Nonmetropolitan | : | 56 | 168 | 200.0 | 1.8 |
| | : | | | | |
| U.S. total | : | 51 | 151 | 196.1 | 1.4 |
| Metropolitan | : | 54 | 161 | 198.1 | 1.4 |
| Nonmetropolitan | : | 41 | 125 | 204.9 | 1.5 |
| | : | | | | |
| Unemployment insurance: | : | | | | |
| | : | | | | |
| Northeast | : | 17 | 97 | 470.6 | .4 |
| Metropolitan | : | 17 | 98 | 476.5 | .4 |
| Nonmetropolitan | : | 16 | 88 | 450.0 | .5 |
| | : | | | | |
| North Central | : | 9 | 58 | 544.4 | .2 |
| Metropolitan | : | 8 | 60 | 650.0 | .2 |
| Nonmetropolitan | : | 10 | 53 | 430.0 | .3 |
| | : | | | | |
| South | : | 6 | 34 | 466.7 | .2 |
| Metropolitan | : | 5 | 33 | 560.0 | .1 |
| Nonmetropolitan | : | 7 | 36 | 414.3 | .3 |
| | : | | | | |
| West | : | 18 | 64 | 255.6 | .5 |
| Metropolitan | : | 19 | 65 | 242.1 | .5 |
| Nonmetropolitan | : | 18 | 62 | 244.4 | .6 |
| | : | | | | |
| U.S. total | : | 12 | 60 | 400.0 | .3 |
| Metropolitan | : | 12 | 64 | 433.3 | .3 |
| Nonmetropolitan | : | 10 | 51 | 410.0 | .4 |
| | : | | | | |

See footnotes at end of table.

Continued

Table 2--Per capita transfer payments and transfer payments as a percentage of total personal income by program, region, and residence, 1969 and 1977--Continued

| Program, region, and residence 1/ | Per capita transfer payments | | | Transfer payments as a percent of personal income | |
|--------------------------------------|------------------------------|------|--------|--|------|
| | 1969 | 1977 | Change | 1969 | 1977 |
| | <u>Dollars</u> | | | <u>Percent</u> | |
| Public assistance | : | | | | |
| | : | | | | |
| Northeast | : | 47 | 145 | 208.5 | 1.1 |
| Metropolitan | : | 50 | 154 | 208.0 | 1.2 |
| Nonmetropolitan | : | 26 | 93 | 257.7 | .8 |
| | : | | | | |
| North Central | : | 25 | 92 | 268.0 | .7 |
| Metropolitan | : | 26 | 105 | 303.8 | .6 |
| Nonmetropolitan | : | 21 | 64 | 204.8 | .7 |
| | : | | | | |
| South | : | 28 | 88 | 214.3 | .9 |
| Metropolitan | : | 23 | 78 | 239.1 | .6 |
| Nonmetropolitan | : | 36 | 106 | 194.4 | 1.4 |
| | : | | | | |
| West | : | 50 | 131 | 162.0 | 1.3 |
| Metropolitan | : | 53 | 141 | 166.0 | 1.3 |
| Nonmetropolitan | : | 39 | 97 | 148.7 | 1.3 |
| | : | | | | |
| U.S. total | : | 35 | 110 | 214.3 | 1.0 |
| Metropolitan | : | 37 | 118 | 218.9 | .9 |
| Nonmetropolitan | : | 30 | 90 | 200.0 | 1.1 |
| | : | | | | |

1/ See text for explanation of programs.

Sources: (21, 22).

Table 3--Per capita personal income by region
and residence, 1969 and 1977

| Region and residence | :Per capita personal: | | | : Percent : change : 1969-77 : 1969-77 : : : |
|-------------------------|-----------------------|----------------|-----------|---|
| | : income | | : Change | |
| | : 1969 | : 1977 | : 1969-77 | |
| | : ----- | <u>Dollars</u> | ----- | <u>Percent</u> |
| : | : | : | : | : |
| Northeast | : 4,085 | 7,380 | 3,295 | 80.7 |
| Metropolitan | : 4,224 | 7,623 | 3,399 | 80.5 |
| Nonmetropolitan | : 3,197 | 5,960 | 2,763 | 86.4 |
| : | : | : | : | : |
| North Central | : 3,757 | 7,226 | 3,469 | 92.3 |
| Metropolitan | : 4,063 | 7,726 | 3,663 | 90.2 |
| Nonmetropolitan | : 3,081 | 6,149 | 3,068 | 99.6 |
| : | : | : | : | : |
| South | : 3,127 | 6,339 | 3,212 | 102.7 |
| Metropolitan | : 3,523 | 7,004 | 3,481 | 98.8 |
| Nonmetropolitan | : 2,498 | 5,245 | 2,747 | 111.0 |
| : | : | : | : | : |
| West | : 3,909 | 7,508 | 3,599 | 92.1 |
| Metropolitan | : 4,110 | 7,846 | 3,736 | 90.0 |
| Nonmetropolitan | : 3,094 | 6,234 | 3,140 | 101.5 |
| : | : | : | : | : |
| U.S. total | : 3,668 | 7,026 | 3,358 | 91.5 |
| Metropolitan | : 3,977 | 7,522 | 3,545 | 89.1 |
| Nonmetropolitan | : 2,842 | 5,742 | 2,900 | 102.0 |
| : | : | : | : | : |

Source: (21).

Table 4--Incidence of the aged, per capita social security benefits, and per capita medicare benefits, 1976 and 1977

| Region and residence | : Population over 65, 1976 | : Per capita social security benefits, 1977 | : Per capita medicare benefits, 1977 |
|----------------------|----------------------------|---|--------------------------------------|
| | : Percent | -----Dollars----- | |
| : | : | | |
| Northeast | : 11.0 | 437 | 126 |
| Metropolitan | : 10.9 | 432 | 130 |
| Nonmetropolitan | : 11.1 | 466 | 103 |
| : | : | | |
| North Central | : 10.3 | 397 | 99 |
| Metropolitan | : 9.0 | 376 | 99 |
| Nonmetropolitan | : 12.9 | 441 | 99 |
| : | : | | |
| South | : 10.3 | 358 | 87 |
| Metropolitan | : 9.0 | 342 | 89 |
| Nonmetropolitan | : 12.2 | 384 | 84 |
| : | : | | |
| West | : 9.3 | 352 | 101 |
| Metropolitan | : 9.0 | 348 | 107 |
| Nonmetropolitan | : 10.0 | 368 | 79 |
| : | : | | |
| U.S. | : 10.3 | 385 | 102 |
| Metropolitan | : 9.5 | 376 | 106 |
| Nonmetropolitan | : 12.0 | 409 | 90 |
| : | : | | |

1/ Aged population data are from the 1976 Survey of Income and Education (16, 18).

Sources: (16, 18, 21, 22).

of each region had a larger percentage of their population over 65 years old than the metro areas. As a result, social security payments in 1977 were higher in the nonmetro areas of each region. The size of the aged population and benefits were not perfectly correlated, because social security benefits are partially determined by past earnings.

The relationship between percent aged and medicare, the other component of general retirement, was more tenuous. Medicare payments were higher in the metro parts of each region except the North Central, despite the lower concentration of metro elderly (table 4). Lower health care fees in nonmetro areas help explain this apparent paradox. For example, medicare partially reimburses patients for "reasonable charges" for physicians' services, and these charges vary from place to place reflecting local fees for services (11, pp. 206, 207; 25, pp. 12, 13). Because nonmetro physicians tend to charge lower fees, medicare reimburses less in nonmetro than metro areas for the same services (3, pp. 11, 12). Lower nonmetro reimbursement rates reduce per capita medicare benefits.

Lower reimbursement for the same services does not fully explain low nonmetro medicare payments. Medicare recipients may not receive the same services in metro and nonmetro areas because the opportunities for specialized care are greater in metro areas. For example, specialists made up 84.7 percent of the metro physicians practicing in offices in 1979 (29, p.16). A much smaller share, 63.3 percent, of the nonmetro doctors were specialists. Because specialists generally charge more than general practitioners, the greater metro concentration of specialists could make medicare payments larger in metro areas. 10/

Specific Employee Retirement

Specific employee retirement programs paid more per capita in the metro portion of each region, except the Northeast, in both 1969 and 1977 (table 2). This may reflect a greater concentration of these retirees in metropolitan areas than in nonmetropolitan areas. Unlike general retirement, per capita specific employee retirement payments were lowest in the North Central Region.

The metro South and metro West each had high per capita payments of about \$200 in 1977. The metro South's payment resulted from large per capita Federal employee retirement benefits (\$78) and military retirement benefits (\$72). The metro South's Federal employee retirement benefits were concentrated in the Washington D.C. SMSA. The metro West had large per capita Federal employee retirement (\$57), State and local

10/ Medicare benefits were allocated to counties by the address of the beneficiary, not by the address of the health care provider. Thus, the higher metropolitan per capita benefits do not result from nonmetropolitan people receiving specialized care in metropolitan areas.

government employee retirement (\$58), and military retirement (\$70). In comparison, the national average per capita Federal employee retirement, State and local government employee retirement, and military retirement benefits were \$46, \$48, and \$39 respectively.

Unemployment Insurance

Unemployment insurance was a relatively small category. It paid less than 2 percent of each area's personal income in both 1969 and 1977 (table 2). Per capita benefits were low in 1969, less than \$20 throughout the Nation. Although the national average payment increased to \$60 per capita by 1977, unemployment insurance still paid less than general retirement and specific employee retirement.

Unemployment insurance generally paid the highest per capita benefit in the metro portion of each region in 1977. The exception was the South, where the nonmetro per capita payment was slightly higher. The Northeast had the highest metro and nonmetro per capita payments in 1977, and the South had the lowest.

Regional differences in unemployment partially explain regional variations in per capita unemployment benefits. The unemployment insurance program, however, is largely State administered, and there is considerable variation among the States in program characteristics, such as eligibility criteria, maximum benefits allowed, and the formula used to calculate benefits (11, pp. 54, 57, 59, 60).

Lower nonmetro benefits may also reflect the greater nonmetro concentration of proprietors, who are ineligible for unemployment insurance. Only 6.6 percent of all employees were proprietors in metropolitan areas, compared with 16.8 in nonmetro areas (21).

Public Assistance

Public assistance paid a small portion of personal income in all the residential and regional categories (table 2). The largest portion of personal income paid by public assistance was only 2 percent in the metro Northeast and nonmetro South in 1977 and 1.4 percent in the nonmetro South in 1969.

Within each region, nonmetro areas generally received lower per capita public assistance payments (table 2). The per capita public assistance payment was higher for nonmetro than metro areas only in the South. By 1977, the nonmetro South per capita payment was also higher than any other nonmetro payment and about the same as the metro North Central payment. The nonmetro North Central Region had the lowest per capita payments both years.

The rank of individual programs also varied geographically. AFDC paid more than any other public assistance program in all residential-regional categories outside the South in 1977. In the nonmetro South SSI paid the most, and in the metro South AFDC, food stamps, and SSI paid approximately the same.

Demographic data help explain why SSI was the largest public assistance program in the nonmetro South (table 5). Approximately 3.0 percent of the nonmetro South's population was poor and elderly compared with only 1.5 percent for the Nation as a whole.

Demographic data, however, do not explain why AFDC ranked so low in the South. Both the metro and nonmetro South had a large AFDC target population. Approximately 3.5 percent of the nonmetro South's population and 2.9 percent of the metro South's population in 1977 were children in low-income, female-headed families, the basic target group for AFDC (table 5). ^{11/} Nationally, only 2.6 percent of the population were poor children in female-headed families. Despite high target populations, Southern AFDC payments averaged \$22 per capita in non-metro areas and \$24 in metro areas in 1977, less than half the national average of \$49. State administration of AFDC explains AFDC's low per capita payments in the South. Southern States have typically established low benefit levels (2).

Transfer Payment Growth

U.S. per capita transfer payments almost tripled between 1969 and 1977 (table 2). This growth is remarkable, because U.S. per capita personal income less than doubled during the same period (table 3). Even after adjusting for inflation, transfer payment growth was large. Real per capita transfer payments increased by 77.0 percent, substantially more than the 15.9 percent increase in real per capita personal income.

Total per capita transfers grew the most, at least 200 percent, in the metro and nonmetro South and in the metro North Central Region (table 2). Retirement payments grew the fastest in the metro and nonmetro South, while public assistance and unemployment insurance benefits grew the fastest in the metro Southern and metro North Central Regions.

The fastest growing category was unemployment insurance, which increased five-fold nationally (table 2). Higher unemployment in 1977 accounted for some of the growth. The 1977 unemployment rate was 7.0 percent, or double the 1969 rate (17, p. 392). ^{12/} Liberalized program rules in the 1970's also contributed to

^{11/} The nonmetro South had an even greater incidence of poor children in male-headed families. These children were 2.0 percent of the Southern metro population and 3.8 percent of the Southern nonmetro population, compared with 1.4 percent of the metro population and 2.4 percent of the nonmetro population outside the South (13).

^{12/} Unemployment insurance benefits fluctuate with the business cycle, increasing as unemployment rises and decreasing as unemployment declines. The 1973-75 recession ended by early 1975, but unemployment was still high in 1977 (23). Benefits from other programs, such as food stamps, may also have been higher because of high unemployment.

Table 5--Aged poor, poor children in female-headed families,
and per capita SSI and AFDC benefits by region and
residence, 1977

| Region and residence | : Aged poor as: : a percent of:Per capita: : population : SSI : <u>1/</u> : : | : Poor children in female-headed fam- ilies as a percent : : of population <u>1/</u> : : | : Per capita AFDC : | |
|----------------------------|---|--|---------------------------|---------|
| | : Percent | Dollars | Percent | Dollars |
| South | : 2.3 | 32 | 3.1 | 23 |
| Metropolitan | : 1.7 | 24 | 2.9 | 24 |
| Nonmetropolitan | : 3.0 | 47 | 3.5 | 22 |
| : | | | | |
| North and West | : 1.1 | 28 | 2.4 | 61 |
| Metropolitan | : .9 | 30 | 2.8 | 70 |
| Nonmetropolitan | : 1.6 | 23 | 1.5 | 34 |
| : | | | | |
| Total | : 1.5 | 29 | 2.6 | 49 |
| Metropolitan | : 1.1 | 28 | 2.8 | 57 |
| Nonmetropolitan | : 2.2 | 33 | 2.4 | 28 |
| : | | | | |

1/ Poverty status is based on 1977 income. The numbers of people used to calculate the percentages are as of March 1978.

Sources: (13, 21, 22).

higher per capita benefits in 1977. Unemployment insurance was extended to cover more jobs, and a program was created to pay extended benefits to people who exhaust their regular benefits (11, p. 50).

At the national level, per capita public assistance benefits grew more rapidly than total transfer payments (table 2). Part of the growth of public assistance was due to the expansion of the Food Stamp Program in the early 1970's (7, pp. 12-13). Program benefits were liberalized in 1970 by reducing purchase requirements and increasing net benefits, and program coverage was increased from about 1,500 counties in 1969 to all 3,100 counties after July 1974. The national growth rate for public assistance other than food stamps was about 165 percent, substantially less than the 192.4 percent rate for all transfers. Despite the concern over the growth of welfare, not all public assistance programs have grown rapidly when compared with other transfer programs.

The contribution of transfer payments to personal income growth between 1969 and 1977 varied geographically (table 6). Within each region, transfers formed a larger share of income growth in nonmetro areas than metro areas. Transfer payments made up the largest portion of income growth in the nonmetro Northeast (25.7 percent), the metro Northeast (21.7 percent), and the nonmetro South (21.5 percent).

Summary

What can we conclude from the regional and residential data? A larger portion of personal income came from transfer payments in nonmetro areas than in metro areas in each region. This occurred despite a larger average transfer payment in metro areas. The importance of transfers in nonmetro areas was a result of large general retirement programs, especially social security. General retirement paid both a larger per capita benefit (except in the West) and a larger portion of personal income in nonmetro areas. Finally, a major portion of the growth in personal income in nonmetro areas came from transfer payments. 13/

COUNTY VARIATION IN TRANSFER PAYMENTS

Transfer payments can also vary among individual counties within a region or State. To examine local variations, counties were ranked from highest to lowest by the per capita payments received from general retirement and from public assistance. Figures 1 and 2 show counties that ranked in the first or highest payment quintile. General retirement and public assistance were selected because of the current general interest in retirement and welfare programs. Per capita general retirement payments ranged from \$610 to \$2,234 in figure 1, and per capita public assistance payments ranged from \$126 to \$408 in figure 2.

13/ Counties can be divided into more homogeneous categories than the metro-nonmetro groups used above. See Appendix C for more information.

Table 6--Change in personal income and transfer payments
by region and residence between 1969 and 1977

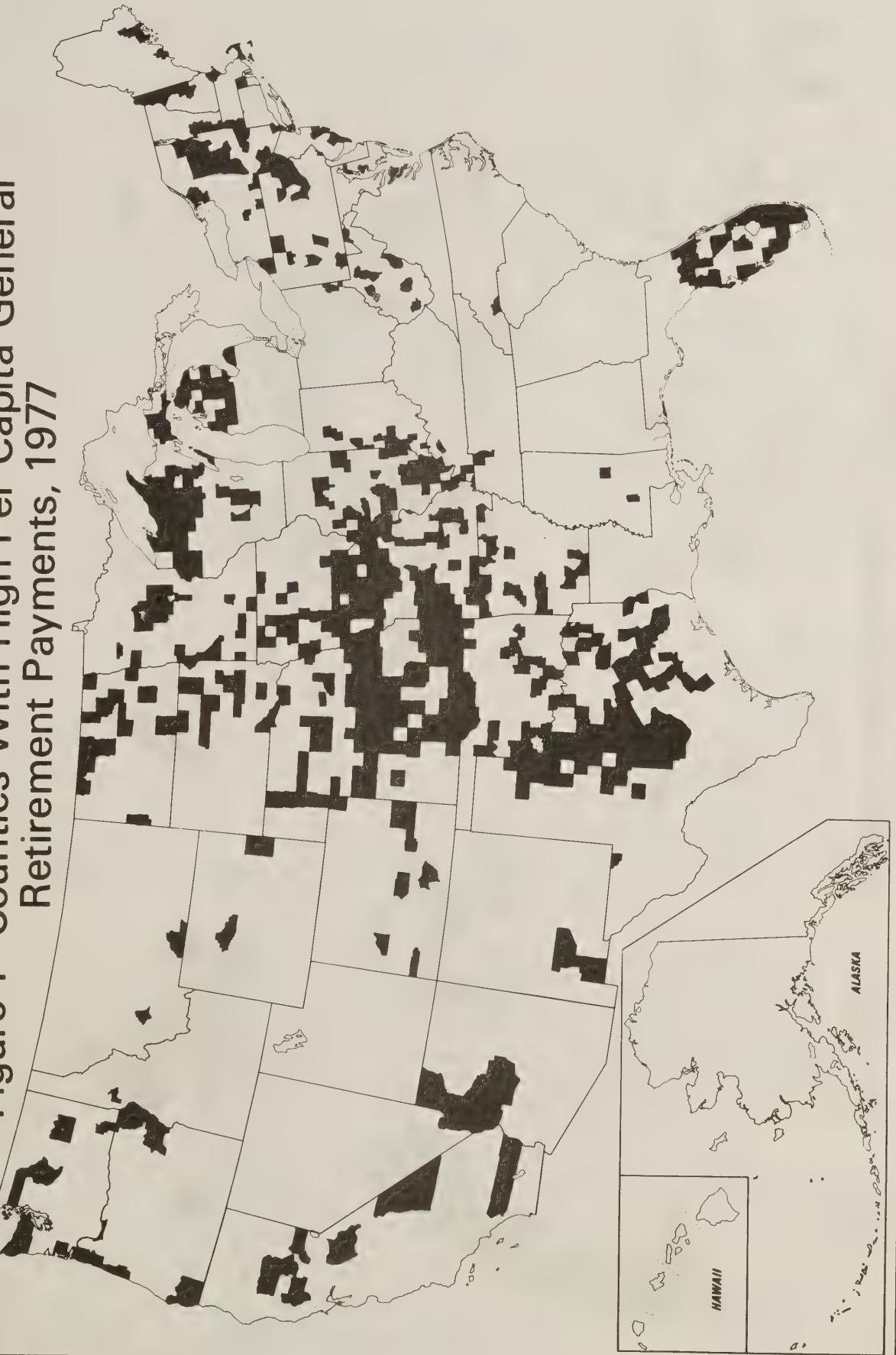
| Region and residence | : Change between 1969 and 1977 : | | | Portion of change in personal income from transfers |
|-------------------------|----------------------------------|---|-------------|---|
| | : Per capita transfer | : Per capita personal payments 1/ | : income 2/ | |
| | <u>Dollars</u> | | | <u>Percent</u> |
| : | | | | |
| Northeast | : 735 | 3,295 | | 22.3 |
| Metropolitan | : 739 | 3,399 | | 21.7 |
| Nonmetropolitan | : 711 | 2,763 | | 25.7 |
| : | | | | |
| North Central | : 589 | 3,469 | | 17.0 |
| Metropolitan | : 593 | 3,663 | | 16.2 |
| Nonmetropolitan | : 577 | 3,068 | | 18.8 |
| : | | | | |
| South | : 599 | 3,212 | | 18.6 |
| Metropolitan | : 603 | 3,418 | | 17.6 |
| Nonmetropolitan | : 591 | 2,747 | | 21.5 |
| : | | | | |
| West | : 645 | 3,599 | | 17.9 |
| Metropolitan | : 658 | 3,736 | | 17.6 |
| Nonmetropolitan | : 596 | 3,140 | | 19.0 |
| : | | | | |
| U.S. total | : 635 | 3,358 | | 18.9 |
| Metropolitan | : 648 | 3,545 | | 18.3 |
| Nonmetropolitan | : 602 | 2,900 | | 20.8 |
| : | | | | |

1/ Calculated by subtracting column 1 from column 2, table 2.

2/ From table 3.

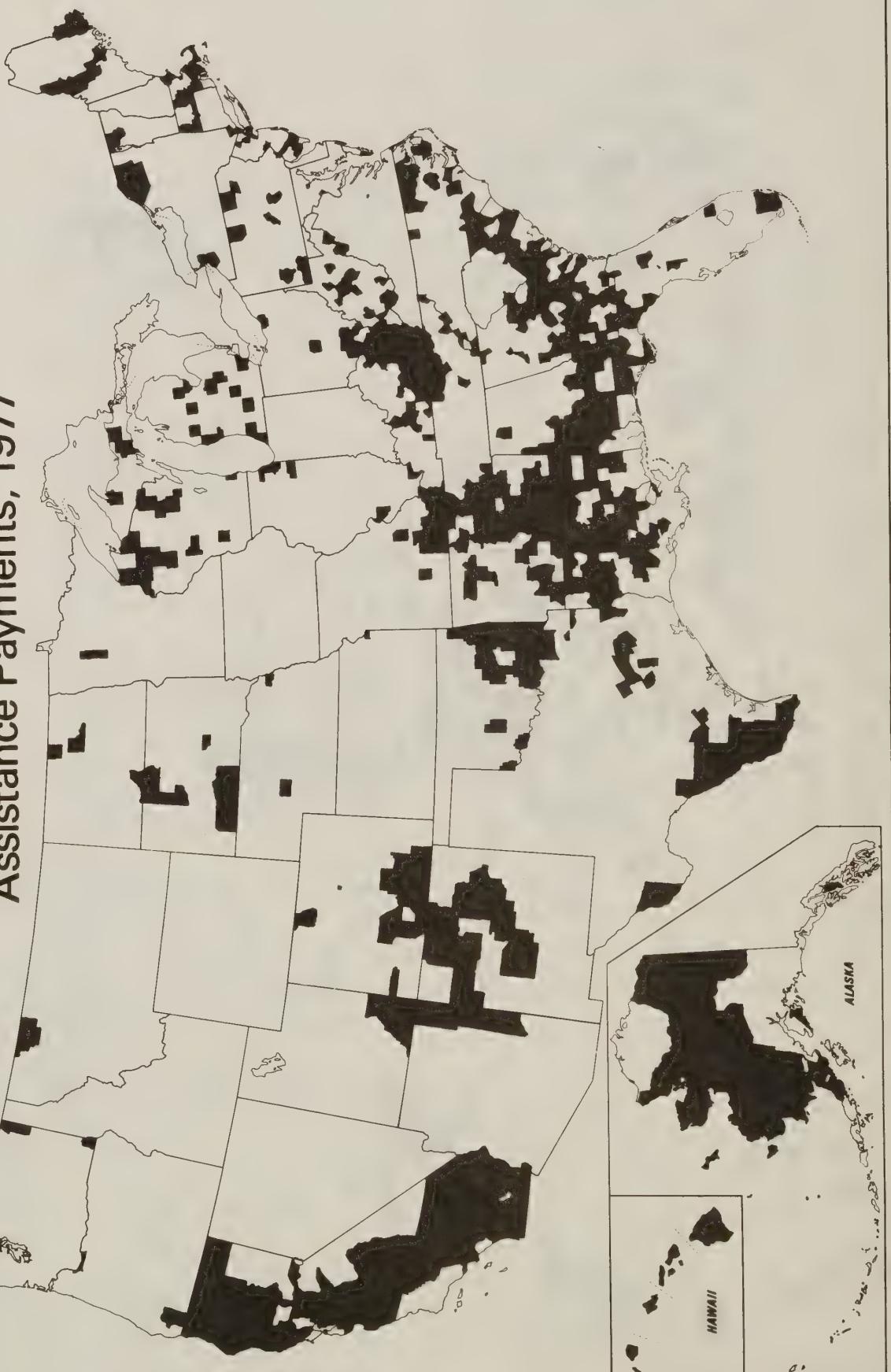
Sources: (21, 22).

Figure 1--Counties With High Per Capita General Retirement Payments, 1977



Sources: (21,22).

Figure 2 -- Counties With High Per Capita Public Assistance Payments, 1977



Sources: (21,22).

General Retirement

General retirement payments are highest in counties located in the North Central Region and in the western part of the South. Most of the counties with large per capita general retirement payments were concentrated in a triangle with its corners in North Dakota, Michigan, and central Texas (figure 1). Florida, the Northeast, and States on the Pacific Coast had additional concentrations. Of the 627 high-payment counties, 578 were nonmetropolitan.

The distribution of the elderly explains the concentration of high-payment counties. Some areas, such as Florida and the upper Great Lakes, have experienced in-migration of retirees. Other areas, such as the Great Plains, have a large elderly population because of the out-migration of younger people.

Public Assistance

The largest concentrations of counties with high per capita public assistance payments were in the South, particularly in Appalachian Kentucky; in the coastal plains of South Carolina, Georgia, and Alabama; and in the Mississippi Delta (figure 2). The South had 431 of the 627 first-quintile counties, and 94.4 per cent of these Southern counties were nonmetropolitan. The large number of nonmetro high-payment counties in the South reflects the region's high nonmetro poverty rate. Approximately 17.9 percent of the Southern nonmetro population was poor in 1977 (13, pp. 39, 48). A much smaller portion of the total U.S. population, 11.6 percent, lived in poverty.

Alaska, California, and Hawaii also had concentrations of counties with high per capita public assistance payments. Figure 2 may give an exaggerated impression of the importance of public assistance in Alaska. Because the Alaskan high-payment counties had low population densities, they contained only 44,000 people, approximately one-tenth of the State's population. Generous State AFDC programs partially explain the first-quintile counties in California and Hawaii (2, p. 2). In addition, California had the Nation's largest State supplemental SSI benefits per recipient, and Hawaii had a high food stamp benefit schedule to compensate for a higher cost of living (25, p. 224; 11, p. 283).

The only other large contiguous area with high public assistance payments consisted of 20 nonmetro counties and one metro county in Colorado, New Mexico, Arizona, and Utah. Seven of these counties contained Indian reservations. 14/ Almost all of the other counties had a large Hispanic population. Eight of the nonmetro counties were in New Mexico, which had a nonmetro poverty rate of 24.4 percent in 1975 (16).

The rest of the country had few counties with high per capita payments. The only North Central States with at least 15 counties highlighted in Figure 2 were Michigan, Wisconsin, and Missouri.

14/ The location of reservations was determined from The Hammond World Atlas (4).

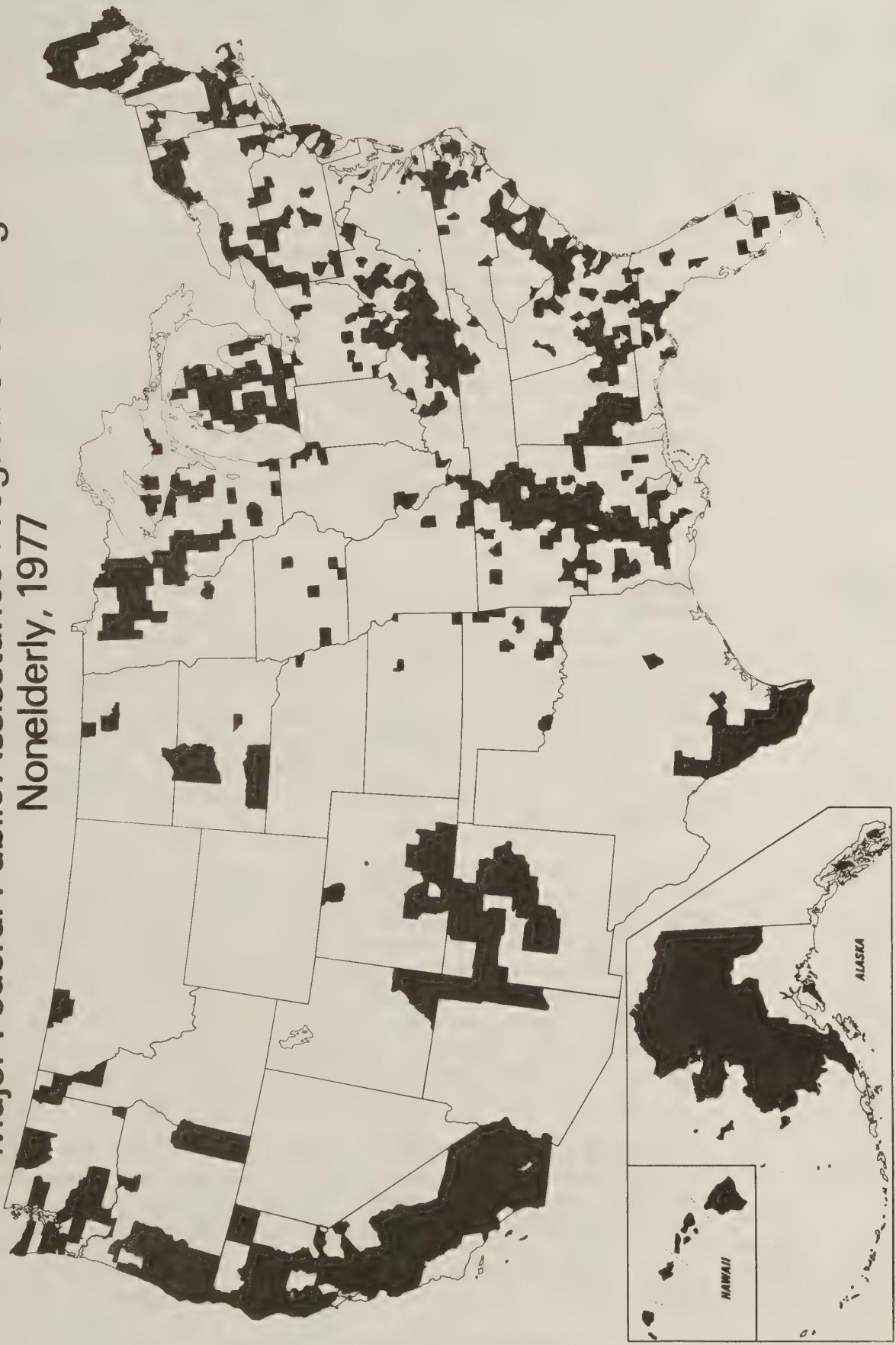
THE NEW FEDERALISM

President Reagan proposed a New Federalism Initiative during his 1982 State of the Union Address (10, 26, 28). Under current law the Federal Government finances food stamps, but the State and Federal governments share the costs of AFDC and medicaid. Under the original version of New Federalism proposed in January, 1982, the Federal Government would assume full financial responsibility for medicaid in fiscal year 1984. The States, in return, would assume responsibility for AFDC and food stamps. The States, in other words, would "swap" their portion of medicaid for food stamps and the Federal portion of AFDC. An additional 44 Federal aid programs would be turned over to the States, along with money from a trust fund to pay for them. Existing Federal excise taxes and part of the windfall profits tax on oil would finance the trust fund. The fund and its supporting taxes would be gradually phased out between 1988 and 1991. The States, however, could replace the revenues from the disappearing trust fund by initiating taxes of their own similar to the phased-out Federal taxes (26, 28).

New Federalism's form will likely change during the public debate about its provisions. For example, the administration agreed to remove Food Stamps from the swap after discussions with the Nation's governors (29). The States would assume responsibility for AFDC and the Federal government would assume responsibility for medicaid, as under the original proposal. Food stamps, however, would remain a Federal responsibility. Because New Federalism's provisions may change, a detailed analysis of the proposal's effects would be speculative at this time. One can, however, identify areas that could be affected by New Federalism because they receive large payments from the public assistance programs involved in the discussions. To pinpoint these areas, counties were ranked from highest to lowest by their per capita AFDC plus food stamp payments. These are the major Federal public assistance programs serving the non-elderly poor and are likely to be examined in any major welfare reform proposal. Counties in the highest payment quintile were mapped in figure 3. Per capita payments ranged from \$67 to \$313 in these counties. Unfortunately, county data for medicaid were not available.

Figure 3 is similar to figure 2, which shows counties with high per capita public assistance payments. Both figures have concentrations of high-payment counties in Hawaii, Alaska, California, the South, and a large contiguous area of Arizona, Utah, Colorado, and New Mexico. The figures also have important differences. Figure 2 has more Southern counties highlighted, but figure 3 has more highlighted counties in the Northeastern, North Central, and Pacific Northwestern States. Thus, changes in AFDC and food stamps could affect Northern as well as Southern counties.

Figure 3--Counties With High Per Capita Payments From Major Federal Public Assistance Programs Serving the Nonelderly, 1977



Sources: (21,22).

Some of the Southern counties in figure 2 got their high rank from SSI payments. When SSI was excluded in figure 3, these Southern counties no longer ranked in the highest quintile. They were largely replaced by Northern counties. Northern States with at least five more counties in figure 3 than in figure 2 were Iowa, Maine, Michigan, Minnesota, New York, Ohio, Oregon, Pennsylvania, Washington, and Wisconsin. Over half of these States (Michigan, Minnesota, New York, Oregon, Washington, and Wisconsin) ranked among the top ten states in maximum AFDC benefits paid to a family of four. (2, p. 27).

Most of the people in high-payment counties were metro (table 7).^{15/} Only the East South Central and West South Central Divisions had more nonmetro than metro people in high-payment counties. However, over three-quarters of the high-payment counties were nonmetro.

Within each division except the West North Central and East South Central, the per capita payment was higher in metro than nonmetro counties (table 7). Because of lower nonmetro income, AFDC and food stamps generally paid a larger share of personal income in nonmetro than metro counties within each division. The exceptions were the New England and Middle Atlantic Divisions.

CONCLUSIONS AND IMPLICATIONS

Transfer payments are now an important source of personal income. By 1977, they averaged \$965 per capita in the United States and paid 13.7 percent of personal income. Transfers paid a larger share of personal income in nonmetro than in metro areas despite the fact that per capita transfer payments were slightly higher in metro areas. Some nonmetro areas also had high per capita payments. For example, the nonmetro Northeast had higher per capita transfers in 1977 than most metro areas. Thus, nonmetro people have a stake in changes in our transfer system.

Changes in the general retirement programs, especially social security, could have a particularly large impact on nonmetro areas, for general retirement paid both large nonmetro benefits and a large share of nonmetro income. Changes in public assistance programs could also have an impact on the economies of nonmetro counties. Although nonmetro counties as a group received a small portion of their personal income from public assistance, 537 nonmetro counties were in the quintile with the highest per capita public assistance payments in 1977.

^{15/} Unlike earlier tables, table 7 shows data for Census Divisions rather than Census Regions. Census Divisions are subdivisions of Census Regions. Using divisions permits examining differences in transfer payments within a given region.

Table 7--Counties with high per capita payments from major Federal public assistance programs serving the nonelderly by Census Division and residence, 1977

| Census Division and residence 1/ | Counties | Total population | AFDC plus food stamp benefits | |
|-------------------------------------|----------|------------------|-------------------------------|----------------------------------|
| | | | Per capita | As percent of personal income |
| | Number | Thousand people | Dollars | Percent |
| New England | 27 | 7,986 | 102 | 1.44 |
| Metro | 13 | 7,261 | 104 | 1.44 |
| Nonmetro | 14 | 724 | 81 | 1.40 |
| Middle Atlantic | 45 | 19,651 | 147 | 1.98 |
| Metro | 24 | 17,656 | 155 | 2.04 |
| Nonmetro | 21 | 1,995 | 75 | 1.26 |
| East North Central | 91 | 20,111 | 112 | 1.45 |
| Metro | 33 | 18,296 | 115 | 1.45 |
| Nonmetro | 58 | 1,815 | 87 | 1.49 |
| West North Central | 38 | 3,267 | 91 | 1.23 |
| Metro | 8 | 2,795 | 89 | 1.15 |
| Nonmetro | 30 | 471 | 97 | 1.99 |
| South Atlantic | 139 | 7,612 | 103 | 1.56 |
| Metro | 20 | 5,184 | 108 | 1.44 |
| Nonmetro | 119 | 2,427 | 93 | 1.95 |
| East South Central | 112 | 3,625 | 100 | 1.82 |
| Metro | 4 | 1,491 | 89 | 1.24 |
| Nonmetro | 108 | 2,135 | 107 | 2.48 |
| West South Central | 73 | 2,533 | 96 | 1.92 |
| Metro | 6 | 1,190 | 99 | 1.78 |
| Nonmetro | 67 | 1,343 | 93 | 2.07 |
| Mountain | 24 | 957 | 97 | 1.39 |
| Metro | 3 | 623 | 97 | 1.16 |
| Nonmetro | 21 | 334 | 96 | 2.18 |
| Pacific | 78 | 21,528 | 106 | 1.37 |
| Metro | 26 | 19,363 | 106 | 1.35 |
| Nonmetro | 52 | 2,165 | 101 | 1.57 |
| Total | 627 | 87,269 | 115 | 1.57 |
| Metro | 137 | 73,860 | 119 | 1.55 |
| Nonmetro | 490 | 13,409 | 93 | 1.74 |

1/ Census Divisions make up Census Regions.

The divisions making up each region are as follows:

Northeastern Region: New England and Middle Atlantic Divisions

North Central Region: East North Central and West North Central Divisions

Southern Region: South Atlantic, East South Central and West South Central Divisions

Western Region: Mountain and Pacific Divisions

Sources: (21, 22).

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APPENDIX A--BUREAU OF ECONOMIC ANALY- SIS TRANSFER PAY- MENT DATA

Detailed estimates of transfer payments made in each county are available from computer tapes supplied by the Commerce Department's Bureau of Economic Analysis (BEA). This appendix examines the procedures used to estimate county payments. The information presented here is condensed. Anyone desiring more complete information about BEA data should consult Local Area Personal Income 1974-79 (20). 1/

Program Data

Much of the data was based on county-level records for individual programs. County estimates of benefits from other programs were estimated from allocations of State or national data to the county level. BEA's allocation procedures and the transfer payment categories used in this report are outlined below.

General Retirement Programs

General retirement includes social security and medicare. These programs do not require previous employment in a specific industry but cover workers in a variety of industries.

Social Security. Social security pays benefits to retired workers, their dependents, and their survivors; lump sum death benefits; and disability benefits to workers and their dependents. The Social Security Administration (SSA) has county data that give benefits received by those eligible on December 31 of each year.

Medical Insurance. Medical insurance payments include benefits from both the hospital insurance (HI) and supplementary medical insurance (SMI) provisions of medicare. County estimates of medicare benefits were available, but, due to a lag, the most recent payments on the tapes were distributed by data from previous years. State and local governments pay the SMI premiums for elderly welfare recipients. These payments were classified as medical insurance and were allocated by SSA county tabulations of people participating in the SMI program.

Specific Employee Retirement Programs

These programs provide retirement and disability benefits to specific groups of employees and their dependents. Included in this group are railroad retirement, Federal employee retirement, military retirement, and numerous State and local retirement funds.

Railroad Retirement. Railroad retirement benefits were allocated using a county tabulation of benefits paid during one month in 1971. For other years, the 1971 distribution was extrapolated by annual changes in county social security benefits.

Federal Employee Retirement. Payments were allocated by a one-month zip code distribution of benefits prepared annually after 1971.

1/ Unless noted otherwise, the information in Appendix A came from 20.

Military Retirement. These payments were allocated by a one-month zip code tabulation of military retirement payments prepared annually since 1972. For earlier years, the 1972 distribution was allocated backwards by social security payments.

State and Local Government Retirement Benefits. Benefits from these programs were allocated by county estimates of State and local government payrolls.

Unemployment
Insurance

The bulk of this item is made up of State unemployment compensation. Most States report their payment data by county, but a few report by office. Local office statistics were distributed by county unemployment as reported in the 1970 Census of Population.

Public Assistance

Public assistance includes payments from supplemental security income (SSI), food stamps, aid to families with dependent children (AFDC), and general assistance. Each of these programs is described in greater detail below.

SSI. SSI provides income assistance to needy aged, blind, and disabled. Recipients are given a monthly income which is adjusted for changes in the cost of living (11). In 1974 and 1975 total SSI payments in a State were allocated to counties on the basis of the number of recipients on county SSI rolls. 2/ By 1976 county tabulations of the dollar amounts of the Federal basic payment were available. Federal basic payments were also used to allocate the Federal "hold-harmless payments." Some States provided county estimates for State supplemental payments. For those that did not, county allocations were made in proportion to the geographic distribution of the Federal basic benefit payments.

Food stamps. The USDA provided county tabulations of the value of bonus coupons issued each month. These data were summed to calendar year totals and used to allocate State totals to counties.

General Assistance. State or local governments give general assistance to families or individuals who do not qualify for other aid. The National Center for Social Statistics and State Welfare Departments provided data from which estimates were developed.

2/ Starting in January 1974, SSI replaced the old age assistance (OAA), aid to the blind (AB), and aid to the disabled (AD) programs. County estimates for these programs were developed from data provided by the State Departments of Welfare and the National Center for Social Statistics of the U.S. Department of Human Services. SSI data in the text and tables for years prior to 1974 were actually OAA, AB, and AD data.

AFDC. AFDC was developed to encourage the care of needy children in their homes or in the homes of relatives (11). The program is operated by State and Federal welfare systems. Estimates for all years were developed from county data provided by State Welfare Departments and the National Center for Social Statistics.

Other Income Maintenance. This miscellaneous category includes refugee assistance, foster home care, the earned income tax credit, and emergency assistance. County data exist for most of the refugee assistance payments. The remaining programs were allocated using other means.

Miscellaneous Transfer Payments

A variety of transfers are in this category. Allocation procedures for only the largest items are discussed below.

Veterans benefits. Among these benefits were disability payments, educational benefits, and insurance benefits. The payments to disabled veterans were allocated by a one-month zip code distribution of veterans' pensions in 1972. The 1972 distribution was extrapolated through time by the change in the number of veterans. Other benefits were allocated by county population or the distribution of veterans by county.

Business and Government Transfers to Nonprofit Institutions. Payments to nonprofit institutions were allocated by population or by the population 18 years old or younger, depending on the type of institution.

Business Transfers to Individuals. Business transfer payments to individuals include uncollectible consumer debts, cash prizes, unrecovered thefts from businesses, and payments for personal injury to individuals other than employees. With the exception of uncollectible consumer debts, allocations were based on the population distribution. A variety of business data was used to allocate uncollectible consumer debts to the county level.

Other Data

This report used population and personal income estimates from the 1969-1977 BEA income tapes to calculate per capita transfer payments and the percent of the total income provided by transfer payments. Personal income is the current income of an area's residents. It is measured before deduction of personal taxes, but after personal deductions for contributions to social insurance, such as social security. Sources of personal income are wages and salaries, other labor income, net income of unincorporated businesses, transfer payments, and property income. Other labor income is largely employer contributions to private pension and welfare programs. BEA uses July 1 Census Bureau county population estimates for the years 1971 through 1977. For years before 1971, county populations were estimated by BEA, using county population data provided by the States, Census estimates of each State's population, and the 1970 Census.

Although BEA prepares its data carefully, estimates are subject to error. The data are based on numerous administrative records, and errors occur as agencies collect and process program data (20 pp. vii, viii). BEA developed computerized edit routines to find major errors, but minor errors undoubtedly elude detection. Data for a given year in a given county may reflect unusual circumstances, such as a drought, that do not occur frequently (20, p. vi-vii). Data for a specific county are likely to be less accurate than aggregate data for groups of counties. When data from many counties are added together, errors are diluted by correct data from other counties, and overestimates in one or more counties may be offset by underestimates in other counties.

APPENDIX B--A
DESCRIPTION AND
HISTORY OF U.S.
TRANSFER PROGRAMS

What Are Transfer
Payments?

The U.S. transfer payment system includes a variety of programs. This appendix defines transfer payments and gives a brief history and description of the programs involved.

The U.S. Department of Commerce prepares a group of national income and product accounts to measure economic activities in the United States. The personal income and outlay account shows the income and expenditures of households (8, p. 49). One component of the personal income that households receive is transfer payments, or individuals' receipts of income from governments and businesses for which no services are currently rendered (20, p. xvii). For example, retirees may receive social security because of work done in the past; poor people may receive food stamps because of their need, not because of any services they perform.

The currently rendered services need not be labor. Individuals' dividend, interest, and rental income generally is not considered a transfer payment because people receive this income for the current use of their property. Interest paid by governments and consumers is an exception because it is not a payment for current services of economic resources (6, p. 110). 1/ The Commerce Department, however, classifies interest paid by governments and consumers as interest income rather than as a transfer payment (24, p. 60; 8, p. 71).

Social security benefits are classified as a transfer payment, but private pension benefits are not. This apparent paradox results from the sectors used in the national income and product accounts. Economic units are divided into three major sectors--businesses, governments, and households (6, pp. 224, 225). The social insurance programs, which include social security, are part of the government sector, while private pension plans are part of the household or personal sector (24, p. 56). Personal contributions to social insurance programs are thus recognized as a payment from the personal sector to the government. Benefits paid by social insurance programs are considered as a transfer payment to individuals that increases personal income. Employee contributions to private pension plans and private pension benefits paid to individuals cancel because both are paid within the personal sector.

The classification of private pension plans understates the amount of income available to the elderly. Considering private

1/ For more information about the treatment of interest in the national income and product accounts, see Abraham's National Income and Economic Accounting (1, pp. 30, 31).

pension plans as transfer payments would have increased total transfers by 8.3 percent in 1975 (17, p. 340; 20, p. 1).^{2/}

Farm program payments also are not classified as transfer payments. Government payments to farmers are considered a part of farm proprietors' income (20, p. xv).

Transfer Programs

Retirement and Related Programs

For ease of presentation, the 35 program categories used in the BEA data were combined into the categories shown in table 1 in the body of the report. Each category is described in the following text.

Retirement and related programs paid about two-thirds of all transfers in 1977. These programs pay benefits not only to retired workers, but also to disabled workers and survivors of deceased workers.

General Retirement. General retirement programs include social security and medicare. These programs do not require previous employment in a specific type of job, but cover workers with many types of jobs. Social security alone accounted for about 40 percent of U.S. transfers in 1977. The retirement portion of the program was enacted in 1935, the survivors' provisions in 1939, and the disability provisions in 1956 (11, p. 9). Until 1954, self-employed farmers were not covered by the program (11, p. 26). Social security is financed by payroll taxes and by a tax on the earnings of the self-employed.

National medical insurance, or medicare, was enacted in 1965 and consists of two programs--hospital insurance (HI) and supplemental medical insurance (SMI). The programs originally covered only the aged (11, pp. 197, 205). In 1972 coverage was extended to recipients of social security and railroad retirement who were disabled and to people with chronic kidney disease. Hospital insurance is funded largely by payroll and self-employed earnings taxes, while medical insurance is funded by premiums paid by eligible recipients and by general revenues. State and local governments pay supplemental medical insurance premiums for the elderly receiving public assistance. These "buy-ins" are included in the medical insurance benefits (20, p. xviii).

Specific Employee Retirement. Other programs pay retirement, survivors, and disability benefits to specific employee groups. These payments made up 15.6 percent of transfers in 1977.

The railroad retirement program pays income to retired or disabled railroad workers and to survivors of deceased railroad workers. The program was initiated by the Railroad

^{2/} The latest data available for private pension plans were from 1975. As used above, private pensions include deferred profit-sharing plans (17, p. 340).

Retirement Act of 1937 after the 1934 and 1935 versions were declared unconstitutional (11, p. 42). The program is funded by payroll taxes, general revenues, and transfers from the Social Security fund.

Federal employee retirement pays benefits to qualified Federal employees who retire because of age or disability and to certain survivors of Federal employees (11, pp. 303, 304). Federal employee retirement is funded by payroll deductions matched by the Federal Government.

The military retirement program pays benefits to members of the Armed Forces and their dependents after retirement. Annual appropriations fund the program (11, pp. 313-314).

Approximately 3,075 State and local public employee retirement systems existed in 1977 (14, p. 11). Retirement generally is allowed under these systems for disability as well as age (11, p. 323).

Income Maintenance Programs

These programs were devised to help support people's income during economic misfortunes. Income maintenance includes unemployment insurance and several public assistance programs.

Unemployment Insurance. Most of the unemployment insurance benefits are paid by State-administered unemployment insurance programs established by the Social Security Act in 1935 (11, p. 50). Funding of these programs comes from payroll taxes. There also are special programs for Federal employees, railroad employees and veterans (20, pp. xix, xxi).

Public Assistance. Most of the programs discussed so far are social insurance programs, funded at least in part by taxes on payrolls or proprietors' earnings. Potential participants in these programs do not have to demonstrate need in order to enroll. Public assistance programs, in contrast, pay benefits in cash or goods and services to the needy. Public assistance paid 11.4 percent of transfer income in 1977.

Supplemental Security Income (SSI) pays a nationally uniform minimum cash income to needy aged, blind, or disabled people (11, p. 113). The program began in 1974 and replaced State-administered programs serving the same clientele. The Federal Government's share of SSI is funded by appropriations. States may supplement the program and generally are responsible for the supplements (11, p. 123).

Aid to families with dependent children (AFDC) was initiated in 1935 to provide financial help to needy children deprived of support because of the death, incapacity, or absence of a parent (11, pp. 140-142). The program was designed primarily to aid female-headed families. In some States, however, families may be eligible due to a father's unemployment. The Federal and State governments currently share the costs of the program.

State or local governments pay general assistance to poor families or individuals who do not qualify for other programs. State legislation for general assistance evolved from concepts of local responsibility for the destitute dating back to colonial or territorial times (11, p. 349). A few states still cite 19th Century "poor laws" as the legal basis for general assistance. No Federal funding is used in this program; only State funds are used in some States, State and local funds in other states, and only local funds in the remaining States.

The food stamp program was enacted in 1964 to reduce malnutrition and to expand sales of agricultural products by permitting poor people to buy a nutritious diet (11, p. 275). An earlier food stamp program existed from 1939 to 1943, but it was discontinued when unemployment and farm product surpluses fell during World War II (7, pp. 1-3). Until 1978 in some states and 1979 in others, food stamp participants paid cash for their stamps and received an equal amount of food stamps, plus additional "bonus" stamps (12, p. i). The Food Stamp benefits in the BEA data include only the bonus. The food stamp program is currently funded by Federal appropriations.

Other public assistance includes refugee assistance, foster home care, the earned income tax credit, and energy assistance. These programs paid a mere 0.6 percent of total transfers in 1977. Medicaid, the program that finances medical care for the poor, is not classified as a transfer payment by Department of Commerce. 3/ Excluding medicaid from tranfer payments substantially understates the size of public assistance payments. Medicaid was approximately \$17.5 billion in 1977, compared with \$23.8 billion for all the public assistance programs in the BEA data (25, p. 251; 22).

Miscellaneous Transfers

The miscellaneous category paid 16 percent of total transfers in 1977. Payments to veterans and their dependents made up about 39 percent of the miscellaneous category. Unlike the other categories, miscellaneous transfers included business as well as government transfer payments. Twenty-eight percent of the miscellaneous category was composed of business transfer payments to individuals, which includes cash prizes, unrecovered thefts from businesses, personal injury payments to people other than employees, and unrecoverable consumer debts. Sixteen percent of the miscellaneous category was government or busi-

3/ Classifying medicare but not medicaid as a transfer payment is somewhat inconsistent. However, until the classifications are revised, users of the data must accept the present categories.

ness payments to nonprofit institutions. 4/ The remainder of the miscellaneous category was paid by the black lung program, workers' compensation, educational training and assistance, and other programs.

4/ The United States currently classifies nonprofit institutions as part of the household sector because they provide free private consumptive goods (9, p. 31). Hence, business and government donations to nonprofit institutions are viewed as transfer payments that increase personal income.

APPENDIX C--TRANSFER PAYMENTS BY COUNTY GROUP

The metro and nonmetro groups used earlier contain counties with diverse characteristics. The metro category, for example, contains the central cities of large Standard Metropolitan Statistical Areas (SMSA's) as well as their more affluent suburbs, while the nonmetro category contains counties with only farms and small hamlets as well as counties with cities of, for example, 40,000 people. Hines, Brown, and Zimmmer of the Department of Agriculture devised a way of assigning counties to more meaningful, homogeneous groups (5, p. 3). In their scheme each metro county was classified by the population of its SMSA. Counties in SMSA's with a population of at least 1,000,000 were further divided into core counties, which contained the central cities, and fringe or suburban counties. Medium metropolitan counties were part of an SMSA of 250,000 to 999,999 population, and small metropolitan counties were part of an SMSA with fewer than 250,000 residents. Nonmetro counties were assigned to a group on the basis of the size of their urban populations and proximity to an SMSA. 1/ Each urbanized nonmetro county had at least 20,000 urban residents, while each less urbanized county had an urban population between 2,500 and 19,999. Totally rural counties had no urban population.

A pattern appeared when data for the county groups were examined (table C1). The highest per capita total transfer payments, general retirement payments, and public assistance payments were in the core counties of large SMSA's in both 1969 and 1977. The lowest payments were always in the neighboring fringe counties. Some of the nonmetropolitan groups also had large per capita payments. For example, four of the six nonmetro groups had total transfer payments greater than \$900 per capita in 1977. All of the nonmetro groups except one had 1977 general retirement payments greater than the \$487 U.S. average. The two totally rural groups had the largest public assistance payments outside the greater metropolitan areas in both 1969 and 1977.

Other patterns appeared in the specific employee retirement data. Specific employee retirement paid the largest benefits in the fringe counties in 1969 and in the fringe and small metropolitan counties in 1977 (table C1). The nonmetro groups had the lowest benefits both years.

Saying anything about unemployment insurance in 1969 is difficult because per capita payments were small and didn't vary much from group to group (table C1). By 1977, the core group had the largest payments, and the less urbanized and totally

1/ Urban nonmetro people live in towns or cities with a population of at least 2,500. Proximity to SMSA's is defined by geographic contiguity and 1 percent or more of the labor force commuting to the SMSA's central county to work (5, p. 3).

Table C1--Per capita transfer payments and transfer payments as a percentage of total personal income by program and county type, 1969 and 1977

| Program and county type 1/ | Per capita transfer payments: | | | Transfer payments as a percent of personal income | |
|-------------------------------|-------------------------------|--------|----------|--|--------|
| | : 1969 | : 1977 | : Change | : 1969 | : 1977 |
| | -----Dollars----- | | | Percent | |
| 11 programs | | | | | |
| Metropolitan total | : | 334 | 982 | 194.0 | 8.4 |
| Greater metropolitan | : | 350 | 1,021 | 191.7 | 8.1 |
| Core | : | 378 | 1,107 | 192.9 | 8.9 |
| Fringe | : | 283 | 841 | 197.2 | 6.4 |
| Medium metropolitan | : | 314 | 939 | 199.0 | 8.6 |
| Small metropolitan | : | 312 | 915 | 193.3 | 9.4 |
| Nonmetropolitan total | : | 320 | 922 | 188.1 | 11.3 |
| Urbanized adjacent | : | 321 | 945 | 194.4 | 10.1 |
| Urbanized not adjacent | : | 303 | 882 | 191.1 | 10.0 |
| Less urbanized adjacent | : | 318 | 909 | 185.8 | 11.5 |
| Less urbanized not adjacent | : | 326 | 936 | 187.1 | 12.2 |
| Totally rural adjacent | : | 319 | 896 | 180.9 | 13.3 |
| Totally rural not adjacent | : | 330 | 931 | 182.1 | 13.5 |
| General retirement | : | | | | |
| Metropolitan total | : | 162 | 482 | 197.5 | 4.1 |
| Greater metropolitan | : | 168 | 497 | 195.8 | 3.9 |
| Core | : | 183 | 538 | 194.0 | 4.3 |
| Fringe | : | 132 | 411 | 211.4 | 3.0 |
| Medium metropolitan | : | 154 | 467 | 203.2 | 4.2 |
| Small metropolitan | : | 153 | 454 | 196.7 | 4.6 |
| Nonmetropolitan total | : | 170 | 499 | 193.5 | 6.0 |
| Urbanized adjacent | : | 166 | 495 | 198.2 | 5.2 |
| Urbanized not adjacent | : | 153 | 448 | 192.8 | 5.1 |
| Less urbanized adjacent | : | 174 | 509 | 192.5 | 6.3 |
| Less urbanized not adjacent | : | 177 | 516 | 191.5 | 6.6 |
| Totally rural adjacent | : | 171 | 488 | 185.4 | 7.1 |
| Totally rural not adjacent | : | 183 | 525 | 186.9 | 7.5 |

See footnotes at end of table.

Continued

Table C1--Per capita transfer payments and transfer payments as a percentage of total personal income by program and county type, 1969 and 1977--Continued

| Program and county type 1/ | Per capita transfer payments: | | | Transfer payments as a percent of personal income | |
|--------------------------------------|-------------------------------|--------|----------|--|--------|
| | : 1969 | : 1977 | : Change | : 1969 | : 1977 |
| | -----Dollars----- | | | -----Percent----- | |
| Specific employee retirement: | | | | | |
| Metropolitan total | : 54 | 161 | 198.1 | 1.4 | 2.1 |
| Greater metropolitan | : 54 | 157 | 190.7 | 1.3 | 2.0 |
| Core | : 52 | 151 | 190.4 | 1.2 | 1.9 |
| Fringe | : 58 | 169 | 191.4 | 1.3 | 2.1 |
| Medium metropolitan | : 54 | 165 | 205.6 | 1.5 | 2.3 |
| Small metropolitan | : 55 | 169 | 207.3 | 1.7 | 2.6 |
| Nonmetropolitan total | : 41 | 125 | 204.9 | 1.5 | 2.2 |
| Urbanized adjacent | : 50 | 149 | 198.0 | 1.6 | 2.4 |
| Urbanized not adjacent | : 44 | 138 | 213.6 | 1.5 | 2.3 |
| Less urbanized adjacent | : 38 | 114 | 200.0 | 1.4 | 2.0 |
| Less urbanized not adjacent | : 38 | 113 | 197.4 | 1.4 | 2.0 |
| Totally rural adjacent | : 37 | 115 | 210.8 | 1.6 | 2.3 |
| Totally rural not adjacent | : 32 | 99 | 209.4 | 1.3 | 2.0 |
| Unemployment insurance | | | | | |
| Metropolitan total | : 12 | 64 | 433.3 | .3 | .9 |
| Greater metropolitan | : 13 | 71 | 446.2 | .3 | .9 |
| Core | : 15 | 76 | 406.7 | .4 | 1.0 |
| Fringe | : 8 | 59 | 637.5 | .2 | .7 |
| Medium metropolitan | : 11 | 58 | 427.3 | .3 | .8 |
| Small metropolitan | : 10 | 50 | 400.0 | .3 | .8 |
| Nonmetropolitan total | : 10 | 51 | 410.0 | .4 | .9 |
| Urbanized adjacent | : 11 | 58 | 427.3 | .3 | .9 |
| Urbanized not adjacent | : 11 | 52 | 372.7 | .4 | .9 |
| Less urbanized adjacent | : 9 | 47 | 422.2 | .3 | .8 |
| Less urbanized not adjacent | : 11 | 49 | 345.5 | .4 | .9 |
| Totally rural adjacent | : 9 | 45 | 400.0 | .4 | .9 |
| Totally rural not adjacent | : 9 | 47 | 422.2 | .4 | .9 |

See footnotes at end of table.

Continued

Table C1--Per capita transfer payments and transfer payments as a percentage of total personal income by program and county type, 1969 and 1977--Continued

| Program and county type <u>1/</u> | Per capita transfer payments | | | Transfer payments as a percent of personal income | |
|-----------------------------------|------------------------------|--------|----------|---|--------|
| | : 1969 | : 1977 | : Change | : 1969 | : 1977 |
| | <u>Dollars</u> | | | <u>Percent</u> | |
| Public assistance | : | | | | |
| Metropolitan total | : | 37 | 118 | 218.9 | .9 |
| Greater metropolitan | : | 45 | 140 | 211.1 | 1.0 |
| Core | : | 56 | 178 | 217.9 | 1.3 |
| Fringe | : | 19 | 61 | 221.1 | .4 |
| Medium metropolitan | : | 28 | 92 | 228.6 | .8 |
| Small metropolitan | : | 26 | 84 | 223.1 | .8 |
| Nonmetropolitan total | : | 30 | 90 | 200.0 | 1.1 |
| Urbanized adjacent | : | 25 | 85 | 240.0 | .8 |
| Urbanized not adjacent | : | 28 | 86 | 207.1 | .9 |
| Less urbanized adjacent | : | 31 | 88 | 183.9 | 1.1 |
| Less urbanized not adjacent | : | 33 | 95 | 187.9 | 1.2 |
| Totally rural adjacent | : | 37 | 104 | 181.1 | 1.6 |
| Totally rural not adjacent | : | 37 | 103 | 178.4 | 1.5 |
| | : | | | | |

1/ See text for explanation of programs.

Sources: (21, 22).

rural groups had the lowest. Low payments in the four most rural groups may reflect rural areas' greater concentration of proprietors, who are not covered by the program. 2/

The large share of nonmetro personal income paid by transfer payments is striking (table C1). By 1977 transfers paid 14.5 to 18.6 percent of nonmetro income, but only 10.3 to 14.0 percent of metro income. Among the nonmetro groups, the percentages generally increased as the groups became more rural. An especially large share of personal income, 7.5 percent in 1969 and 10.5 percent in 1977, came from general retirement in the totally rural not adjacent group. Public assistance formed the largest percentage of personal income in the core and totally rural groups in both years. Low per capita income is a major factor underlying the large percentage of nonmetro income from transfer payments (table C2).

2/ Proprietors were 21.1 percent of total employment in the less urbanized and totally rural counties in 1977, 10.7 percent in the remaining nonmetro counties, and 6.6 percent in the metro counties (21).

Table C2--Per capita personal income by county group, 1969
and 1977

| County group | Per capita personal: | | Change 1969-77 | Percent change 1969-77 |
|-----------------------------|----------------------|-------------|-------------------|------------------------------|
| | income | 1969 : 1977 | | |
| | ----- | Dollars | ----- | -- Percent -- |
| Metropolitan total | : | 3,977 | 7,522 | 3,545 89.1 |
| Greater metropolitan | : | 4,229 | 8,026 | 3,797 89.8 |
| Core | : | 4,252 | 7,955 | 3,703 87.1 |
| Fringe | : | 4,409 | 8,173 | 3,764 85.4 |
| Medium metropolitan | : | 3,638 | 7,017 | 3,379 92.9 |
| Small metropolitan | : | 3,315 | 6,556 | 3,241 97.8 |
| : | | | | |
| Nonmetropolitan total | : | 2,842 | 5,742 | 2,900 102.0 |
| Urbanized adjacent | : | 3,179 | 6,168 | 2,989 94.0 |
| Urbanized not adjacent | : | 3,018 | 6,089 | 3,071 101.8 |
| Less urbanized adjacent | : | 2,776 | 5,643 | 2,867 103.3 |
| Less urbanized not adjacent | : | 2,669 | 5,570 | 2,901 108.7 |
| Totally rural adjacent | : | 2,403 | 4,996 | 2,593 107.9 |
| Totally rural not adjacent | : | 2,438 | 5,016 | 2,578 105.7 |
| : | | | | |

Sources: (21, 22).





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